

**MINUTES OF THE
UTAH TAX REVIEW COMMISSION**

Thursday, June 12, 2008 – 9:00 a.m. – Room C445 State Capitol

Members Present:

Mr. M. Keith Prescott, Chair
Mr. Larry Barusch
Mr. Mark K. Buchi
Rep. John Dougall
Ms. Janis A. Dubno
Sen. Brent Goodfellow
Rep. Wayne Harper
Sen. Lyle W. Hillyard
Mr. Bruce Jones
Mr. Dixie Leavitt
Rep. Rosalind J. McGee
Sen. Wayne L. Niederhauser

Members Absent:

Mr. David Crapo, Vice Chair
Dr. Gary Cornia
Ms. Kathleen Howell
Comm. Bruce Johnson

Staff Present:

Mr. Leif G. Elder, Research Analyst
Mr. Bryant R. Howe, Assistant Director
Ms. Angela D. Oakes, Associate General Counsel
Ms. Rebecca L. Rockwell, Associate General Counsel
Ms. Phalin L. Flowers, Legislative Secretary

Note: A list of others present, a copy of related materials, and an audio recording of the meeting can be found at www.le.utah.gov.

1. TRC Business

Chair Prescott called the meeting to order at 9:06 a.m. He excused Dr. Cornia, Ms. Howell, and Comm. Johnson and welcomed Comm. Marc Johnson, who was attending the meeting in place of Comm. Bruce Johnson.

MOTION: Mr. Buchi moved to approve the minutes of the May 9, 2008 meeting. The motion passed unanimously with Sen. Hillyard, Rep. Harper, and Mr. Jones absent for the vote.

2. Oil and Gas Severance Tax

Mr. Howe distributed and discussed "Background on the Oil and Gas Severance Tax and Oil and Gas Production in Utah," Sections 59-5-101 and 59-5-102, Utah Code, and "Severance Tax Return Information." He discussed the trend in oil, gas, and mining severance tax revenues, Utah's annual oil and natural gas production, and the trend in applications for drilling permits over the last 30 years.

Mr. Howe also discussed Constitutional Amendment B that will appear on the ballot for consideration by the electorate at the next General Election. This constitutional amendment was supported by the TRC when it was adopted by the Legislature during its 2007 General Session. If approved by the electorate, Constitutional Amendment B will allow the Legislature to deposit certain revenue from the severance tax into the Permanent State Trust Fund. He also distributed the "Pro" argument in favor of Constitutional Amendment B, written by Senator Hillyard, that will appear in the Voter Information Pamphlet.

Mr. Howe also explained that Mr. Elder prepared several charts in response to Rep. Dougall's question regarding trends from the last several years regarding the property tax base of oil and gas producing counties. He distributed and discussed "Taxable Value for Oil and Gas Producing Property as a Percentage of Total Taxable Value in Major Oil and Gas Producing Counties," "Average Property Tax Rate in Major Oil and Gas Producing Counties," and "Property Values and Tax Rates for Oil and Gas Producing Counties."

Mr. David Tabet, Manager, Energy and Minerals Program, Utah Geological Survey, distributed and discussed "Utah's Proved Reserves (from EIA - Dec 31, 2006)." He explained that the numbers in the

document reflect proven reserves that have been penetrated by a well. Mr. Tabet said that based on 2007 oil and gas production in the state, there are approximately 17 years of oil resources and 14 years of gas resources, which makes Utah one of the few states that have seen an increase in base reserves of oil and gas.

Mr. Buchi asked if these estimates might change based on technological improvements. Mr. Tabet said that the estimates could very well change based on new discoveries or improvements in technology.

Mr. Barusch asked to know the difference between a "proven" resource vs. an "undiscovered estimated resource." Mr. Tabet replied that a "proven" resource is based on the results of a well bore while the later is based on assumptions that certain resources are present when certain geological characteristics exist.

Mr. Steve Schneider, Utah Divisions of Oil, Gas, and Mining, distributed and discussed "Utah Oil and Gas Activity." He showed the organizational chart for the Division and the Board of Oil, Gas, and Mining. He also discussed the value of oil and gas and oil and natural gas production over the past ten years.

Mr. Prescott asked what causes volatility in natural gas prices. Mr. Schneider said that pipeline constraints and take away capacity are major factors. He said that the price of natural gas at the Opal, Wyoming Hub is lower than another common benchmark price at Henry Hub in Louisiana, which is the pricing point for natural gas futures contract traded on the New York Mercantile Exchange.

Mr. Prescott noted that the industry is experiencing many changes and that the policy question before the TRC is whether or not the current oil and gas severance tax is properly structured.

Mr. Charles Stanley, Chief Operating Officer, Questar Corporation, answered commission questions about the conversion of natural gas measurements. He also said that Questar is a \$13 billion enterprise that is involved with the exploration, production, and distribution of natural gas. He said that his company's focus is to ensure an appropriate return to shareholder value.

Mr. Stanley said that Questar Exploration and Production has a presence in Texas, Louisiana, Colorado, Arkansas, Utah, North Dakota, Oklahoma, and Wyoming. He said that its natural gas field in Pinedale, Wyoming is one of its largest natural gas producing fields. He emphasized that there is not sufficient take away capacity in the rocky mountain region to fully exploit the region's natural gas endowment. However, seven new pipelines are at various stages of development. He said that Utah should promote the construction of these pipelines.

Sen. Hillyard asked why there was a decline in severance tax revenues last year. Mr. Stanley replied that there was a dramatic decrease in natural gas prices during 2007. He also said that Utah is a net exporter of natural gas and that the state should encourage additional exploration and production.

Mr. Schneider discussed changes in the industry since 2002 and discussed several points of severance tax policy.

Mr. Stanley distributed and discussed "Questar Market Resources." He showed charts that represent the different aspects of Questar Corporation, including the portion of their business that distributes natural gas to consumers. He showed how regional price differences affect Questar Corporation's net income. He also explained that in the past wells were drilled in conventional reservoirs, but that those conventional

reservoirs are declining, forcing companies to drill into unconventional reservoirs. Mr. Stanley said that the best economic interest for the state of Utah is to encourage drilling.

Mr. Morris Jackson, Questar Corporation, discussed gas production in the Rocky Mountains, including Utah's Uintah Basin. He summarized by saying that Utah's energy tax policy is fair and competitive and that Utah should encourage and incentivize businesses to continue developing natural gas storage, pipeline capacity, and oil refining capacity.

Mr. Stanley emphasized that the severance tax burden does affect the exploration and production of natural gas and that higher taxes will result in lower production from marginal wells.

3. Transportation Funding

Mr. Elder distributed and discussed "Transportation Finance." He explained that fuel tax revenues do not grow with inflation and that, all else being equal, improved fuel efficiency in automobiles leads to lower gasoline excise tax revenues. He said that the cost of building and maintaining highways is increasing, but that federal funding could decrease within the next few years. Mr. Elder also distributed and discussed "Transportation Revenue from State and Local Taxes and Fees" and "Local Option Sales and Use Taxes and Supplemental State Sales and Use Tax for Transportation."

Mr. Royce VanTassell, Vice President, Utah Taxpayers Association, introduced Rep. Mike Krusee, Chair, House Committee on Transportation, Texas House of Representatives. He also asked the Commission for its support for legislation the Association will be supporting during the 2009 General Session regarding congestion pricing.

Rep. Krusee spoke to the Commission about efforts Texas has recently made concerning transportation funding. He discussed the benefits of congestion pricing and the use of hot lanes to reduce congestion during peak traffic times. He explained that one problem states have when funding their transportation needs is that when a citizen pays a transportation tax, the tax often is not used to pay for or maintain roads used by that citizen. He said that there are three reasons why the current highway maintenance and construction financing system has collapsed: (1) inflation; (2) improved fuel efficiency; and (3) dramatically higher prices for maintenance materials, including asphalt and concrete. He said that there is no link between the life-cycle costs of maintaining a road and what the current gasoline excise tax will yield in revenue.

Rep. Dougall noted that five years ago the Transportation Planning Task Force recognized the need for high occupancy toll lanes.

Rep. Krusee said that some type of financing system associated with vehicle miles traveled is the optimum system but that the technology to operate such a system does not now exist. He emphasized that if the financing system is based on willingness to pay, then private markets will supply the necessary capital for highway construction.

4. Other Items / Adjourn

Chair Prescott adjourned the meeting at 12:53 p.m.